
OFFICE OF THE CITY MANAGER

TO: HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: DAVE RULLER, CITY MANAGER
DATE: NOVEMBER 7, 2008
SUBJECT: PROPOSED 2009 CITY BUDGET

I am pleased to submit the 2009 Proposed City Budget for Council's consideration.

The 2009 Budget Reality

As you know these are difficult and uncertain economic times, and our budget recommendations reflect the City's unresolved financial challenges.

With no new revenue options on the horizon we have proposed no new or expanded services in the 2009 budget. After cutting some \$2 million out of the budget and saving another \$4 million through employee initiatives over the last 8 years, spending will again be capped at prior year levels (with only a few exceptions where justifications were clear) and we will go back to freezing all but the most critical vacancies. I am proud of our cost containment track record but I worry that we are at a point of diminishing returns where holding the line risks falling behind in critical services.

Holding the line

Given available funding levels for 2009 City services will be stretched further than ever before. I wish I could claim that stretching services will have no impact on our service delivery but regrettably I think it may. Response times are likely to be a little longer, repairs slower, and time for individual customer attention will likely be less. I'm not trying to be alarmist just practical. We run a service business and with less people and fewer resources to support them it is probably unrealistic to think that we can sustain the same levels of service – but hopefully our employees will prove me wrong.

*Status quo budget
where more of the
same is less*

Looking at the numbers, little has changed from the 2008 budget to 2009. Across all funds the proposed budget is 4.8% higher in 2009 than 2008 but when you look just at our General Governmental Funds (where our deficit occurs) our Personnel costs are only going up 1.5% and our O&M costs (excluding the new RITA fees) are only up 1.8%.

Real dollar decline

With the Consumer Price Index (CPI) up 5.4% and the Municipal Cost Index (MCI) up 8.4% from 2008 to 2009, our 1.5% to 1.8% increases mean we will lose ground in 2009. We've been referring to the proposed 2009 budget as a "status quo" budget but it is more accurately a reduction budget in terms of real dollars as we've lost the equivalent of \$750,000 in buying power by not keeping pace with inflation.

The status quo is not sustainable

Given our current economic climate we felt the status quo was the best we could expect but as we've learned through the Blue Ribbon study even the status quo is not sustainable. The City still faces a \$1.9 million deficit in our 2009 budget and we will need to rely on savings to pay employee salaries next year.

In light of the significant time staff and Council have spent analyzing our budget problem and trying to implement solutions I won't belabor the deficit issue other than to point out that we are unfortunately not far financially from where we started 3 years ago. We've done some very valuable budget work in these 3 years but until we either successfully raise new revenues or make hard choices to cut specific services the status quo is not going to resolve our budget imbalance.

Unmet needs

Proposing a status quo budget may appear to be an easy decision but the staff and I do not offer this budget lightly. The City remains under enormous spending pressure with City departments needing additional staffing, capital and other spending increases while the public is looking for new and expanded services. Yet because of the uncertain nature of the City's financial recovery, it is not possible to meet these needs in this budget.

City service portfolio

Investment Decisions

The budget is an important financial policy and managerial tool that acts as our service plan for delivering the results that matter most to our citizens during the course of the year. In this way it is our investment plan that we use to align day to day operational services with long term community priorities.

The reality of any budget is that it consists of a collection of purchasing decisions. The Council, working with our citizens, establishes the policy goals and the price community members are willing to pay for local government services. Staff guides the process, ranking and recommending purchasing and investment decisions pursuant to Council priorities.

The proposed 2009 budget has been developed based on the strategic framework outlined in the City's strategic planning documents. The strategy focus areas reflected in the budget include:

Community priorities

- Financial Health and Economic Development**
"to be a prosperous and livable city for all citizens"
- Natural Resources**
"to protect and promote the City's natural resources"
- Quality of Life**
"enhance lifestyle choices through physical and social environment"
- Community Safety**
"to be an exceptionally safe city"
- Communities within the City**
"strengthen the quality and enhance the value of neighborhoods"
- City / University Synergy**
"to expand collaborative opportunities that enrich the community experience"
- Governmental Performance**
"to provide the best services at the lowest possible cost"

Every element of the budget is tied to one or more of these strategic priorities. This helps staff, Council and the community sort through the many service demands we face by focusing on those elements which will help achieve our strategic goals.

Tough Choices

The staff and Council have been diligent in setting aside every savings possible for unexpected financial challenges and those savings have bought us time to plan a path forward. That financial plan is in place and it was endorsed unanimously by City Council in August 2007; now it's a matter of whether the community will support it.

Blue Ribbon blueprint

The plan proposes growing the tax base through strategic economic development investments at a rate of roughly \$1 million a year. Those investments are in turn proposed to be funded through a series of fee and tax changes that spread the financial burden across all segments of the community, which when combined with City productivity and efficiency improvements would balance the budget.

Heading into 2009, Council has made the recommended fee changes, authorized employee initiatives in excess of the \$200,000 savings targeted in the Plan, and has spent approximately \$1,000,000 for downtown redevelopment projects. The only elements of the citizen's plan that are not in effect are the tax components.

We recognize that in these uncertain economic times any tax consideration is likely to be met with concern in the community which is why we continued to take a very fiscally conservative approach to this budget. We have scrutinized every line item and everything the departments have asked for is defensible. And whatever we don't have to spend during the year, we won't; we'll turn it back in to our savings at the end of the year just as we have in the last 2 years.

*Savings don't solve
the problem*

It's been those savings that have helped us bridge the gap but as you know our savings won't solve the problem. Savings help, but they are still at best a means to an end. It is up to us to work with our citizens to define what that end will be for the future of our community and make the decisions that will take us there.

*Choices and
consequences*

The plan calls for higher taxes but the solution could also be less services or more aggressive business development or a combination of all three. There are many choices for Kent's future and I'm not advocating one over another. I'm only advocating that we consider starting a public process during 2009 to begin a public dialogue to identify essential versus non-essential services so that if new revenues are not forthcoming from any ballot initiative then we have a list of items that we can use to begin to scale back City services in future years.

By taking time in 2009 to better define the choices we face I am optimistic that we can intervene early enough to avoid needing to consider employee layoffs at any time in the future. That has to be our goal. The Council and the Administration has been very public in our commitment to a no-layoffs policy and I believe we owe it to our employees and our residents to plan far enough ahead so that we can use attrition and other non-personnel cost cuts to balance our budget. That means we need to start soon as our savings are only likely to carry us another 2 to 3 more years.

Economic Disarray

Timing is everything

In the course of the last 9 months City Council has made a significant effort to implement some of the Panel's action steps but the timing of the financial markets collapse and banking crisis understandably derailed those efforts. Unfortunately our financial problem wasn't derailed and instead it looms ever larger on the horizon as we enter what could turn out to be a national recession.

Just as families are struggling to keep up with volatile fuel costs, unpredictable energy prices, investment losses, mortgage foreclosures, bank failures, increasing health care premiums and declining home values, the City is faced with those same burdens. It is discouraging that at a time when our citizens may need the safety net of City services the most, we are least able to deliver due to our own financial predicament.

4 out of 5 cities are predicting worsening financial conditions for the next 2 years

It is still too soon to calculate the full effect of the economic downturn or predict how long it will last as tax cycles tend to lag behind business markets by about 12 to 18 months. What is particularly alarming about the current condition is that all aspects of City revenue sources are on a downward slide.

Unlike the previous economic downturn in 2001 when rising property values and consumer spending helped to buffer the effects of declining income tax receipts, the current weak housing market and loss of consumer confidence is likely to affect our City budget for at least 2 to 3 more years.

Inside the 2009 Proposed Budget

Workable plan

This budget provides a workable financial plan while ensuring continuation of municipal services to our citizens. We feel confident the projections and estimates are conservative, yet reasonable and accurately reflect anticipated revenues and municipal needs. I would note that the first wave of recessionary impacts are already evident in our proposed budget affecting forecasts for both revenues and expenses.

Revenues

This budget assumes no new tax or fee revenues other than the vehicle license fee increase (\$125,000) that Council adopted last year that will go into effect in 2009. Overall income tax receipts are slipping in the second half of 2009, falling under 2% growth from last year. The exception remains Kent State University tax receipts which are running nearly 6% higher than last year. We did however show a bump in total income tax collections that we believe will occur from using the services of RITA beginning in 2009.

Flat growth = declining value

City income tax receipts have been fairly flat for most of the past decade in current dollars and actually declining in constant dollars (adjusted for inflation). For example, in current dollars 2006 income tax collections rose .1% which is actually a decline of 2% in constant dollars. 2007 city income tax revenues increased 3.34% over 2006 but that still equates to a decline of .3% in constant dollars for the year. Projections for 2008 are for

Income tax erosion

current dollar growth between 2 to 3% in income taxes which again would turn out to be a constant-dollar decline of 2 to 3%. Combine these figures with actual job loss statistics and you can see why income taxes have been a point of such concern.

Expenses

On a percent of growth basis, expenditures are simply rising faster than revenues. This is because the major components of costs in our budget are labor, construction, fuel and energy, which happen to be under the greatest inflationary pressures.

As noted previously, calling this is a status quo budget is misleading. By keeping current dollars largely unchanged from year to year at the line item level we are actually reducing the buying power of the budget by some 2 to 3% in constant dollars.

Cumulatively over the last 7 years inflation has pushed our prices up 32% but our General Fund O&M expenses have risen only 18%, or slightly more than half the rate of inflation. That statistic may not be evident in the budget document but it is very real in service delivery when we go to buy asphalt mix for pothole repairs, fuel, computers, etc.

*City budget
increased at roughly
half the rate of
inflation*

From this perspective, as the costs for doing business have gone up by a third we've essentially had to double our productivity and efficiency just to keep pace with what we were doing 7 years ago, yet the needs today are arguably higher.

In Total

We've accomplished this budget through a commitment across the organization to exercise fiscal discipline, deliver services with efficiency and provide improved results for the entire community. In 2009 we will continue to be diligent in reviewing all City expenses and we will look for more partnerships and regional collaborations to reduce ongoing costs anywhere we can.

In addition, the senior staff and I have pledged to bring at least another \$100,000 worth of cost saving proposals to City Council in 2009.

*Service cuts are
a last resort*

In this fiscal environment many cities have eliminated services but the 2008 surveys of Kent citizens and City Council clearly showed a preference against any service reductions. In each budget since then we've tried to honor that priority by continuing to provide services, not cut them, and it is no accident that we've done everything in our power to not sacrifice services to pay the bills.

Moving Forward

The price of progress

Despite all the economic woes, we must continue to move forward as individuals, as a community, and as a city. The proposed 2009 Budget is a testament to the fact that the City government, like each of us, must face the challenge and find ways to live within our means. Short of cutting services this budget does exactly that.

*Unwavering
commitment*

Remarkably, amidst the stress of rising costs, increased service demands and fewer resources, the management team rallied and came up with a workable budget that reconciles basic needs with basic City services. This is an under-funded budget prepared by overachieving City employees. We may not be able to do as much as quickly as we used to but we will honor our mission and fulfill our duties as we always have. Our dedication to serve will not change.

People matter

For obvious reasons the budget focuses on percentages, numbers and dollars but in the end it's City employees that make the difference in the lives of everyone that calls Kent home. The City's ability to provide the quality of public services expected by our citizens isn't found in a line item of the budget – it comes from the dedication, skills and talents of our employees.

*Where good
enough never is*

I want to reassure City Council that our employees will not let inadequate resources stand in the way of public service excellence. We understand that to effectively meet the needs of our citizens, innovation and continual improvements by the organization will have to be the norm.

You can't put a price on employee pride in their work but you can put one on employee turnover which unfortunately has been running high. Whether it's the increased workload, burnout, or stress on the job we've had 25% of our City workforce turnover since 2006. That's expensive, disruptive to our service delivery and a concern that the uncertainty of our finances is taking a toll on our employees.

The Difference A Year Can Make

In preparing this budget message I am struck by how much has changed in the last year. One year ago Council voted to endorse the Blue Ribbon Panel recommendations and surveys of Council's and citizen's budget preferences called for filling vacant positions and restoring services that had been reduced due to the budget crunch.

Back to business

We presented the 2008 Budget under the theme of getting back to the business of city government and we proposed a budget that authorized modest increases in spending following successive years of cut-backs. For the first time in nearly a decade the budget had a message of progress and restrained optimism.

Real progress

In 2008 our strategies were working. We witnessed progress on key community priorities. New companies opened in Kent bringing new jobs, new products and new services. Our timing was good. We made key investments that started paying off and spurred new growth. And perhaps most importantly we built confidence – a confidence that came from seeing results not just hearing promises.

A year later pessimism is the new optimism. We've been overcome by events beyond our control in the economy and just as we got back to the business of city government the business world turned upside down on us. Yet at the risk of being called old school, I am still cautiously optimistic.

Reasons for optimism

There's no question that these hard times test our commitment to our ideals and strategies but I continue to see positive signs from the actions we have taken over the last couple of years that give me hope for the future. In the same year of the credit crisis we witnessed more private investment in Kent's downtown than probably the last decade. We've got more solid business prospects in the pipeline and City/University collaborations have never been stronger.

In it's first 200 years the City of Kent survived many economic downturns and I believe we are taking the steps necessary to come out of this current economic period stronger than when it started.

As a City we don't have the luxury of saying no to the services our citizens need just because of tough economic times. It just means we have to be smarter and more creative than ever before in serving the people that rely on us.

In Closing

Sound fiscal policy

Together we must continue to plan prudently by following sound financial management principles and by continuing to try to implement long-term fiscal solutions that will carry the City into the future. While many of the decisions in this budget were

difficult, I believe that they will help assure our long-term financial viability and protect our core services and priorities.

These are no ordinary times but Kent is no ordinary city. It is a city blessed with a competent, professional and committed workforce. It is a city that is making progress and I am honored to serve as its City Manager. I look forward to working with the Council on this budget proposal and I believe that we are on the right path to sustainable financial health.

Thank you

I want to thank the department heads for their work in preparing this budget, with a special thanks to all City employees who have work so hard to provide quality services to our citizens and who are committed to the success of our great City.

I also wish to extend my appreciation to the Mayor and Council members for their community leadership and financial stewardship in 2008. This has been a year of progress, accomplishments and ambitious plans and the administration values Council's support, creative thinking and dialogue in all of our efforts.

As the elected representatives of our community, your critical thought, collective voice and support for our budget is vital as we strive to move our city forward. Our success is a shared success and we invite the Council's participation in crafting our final FY2009 budget.

With these acknowledgements, I present the 2009 proposed budget.

Respectfully,

A handwritten signature in blue ink that reads "Dave Ruller". The signature is stylized, with the first letter of "Dave" being a large, looped "D" and "Ruller" written in a cursive style.

Dave Ruller
City Manager